

Background Note

Infrastructure Stimulus

17 July 2012

Introduction

The Minister for Public Expenditure and Reform, Brendan Howlin T.D., announced today, 17 July 2012, the Government's **€1¼ billion** Infrastructure Stimulus Package. This will provide investment in a range of important new projects. The package will involve raising **€1.4 billion** for investment in public infrastructure projects in Ireland from the EIB, NPRF, domestic banks and other potential sources of funding. A further **€850 million**, funded from some of the proceeds of the sale of State assets and from the new licencing arrangement for the National Lottery, will be invested in supporting employment enhancing and commercial projects and augmenting existing Exchequer investment plans.

New PPP Programme

The **€1.4 billion** private investment will be directed towards projects that meet key infrastructural needs and are in line with the priorities identified in the Government's Investment Framework. These projects will form the first phase of a new programme of Public Private Partnerships (PPPs) designed to stimulate economic growth and create employment. As the Phase 1 projects are progressed and as funding permits, projects that could be delivered as part of further phases will be considered.

Jobs

Job creation is a critical priority for Government. The stimulus announced today will help to sustain jobs in the construction sector which has been very badly hit during the recession. The investment in this Phase 1 package is expected to generate significant numbers of jobs: previous analysis of each sector indicates that the investment will generate around 13,000 jobs. It will also create much needed social and economic infrastructure and aid economic recovery.

Project Details

Regional impact

The projects selected span a number of sectors and will be spread throughout the country. This will help to maximise the benefits to communities and to meet clearly identified local needs.

Education: The package contains **€280 million** of investment in the Education sector. Two new PPP schools bundles will be delivered. Each bundle contains approximately 6 new or replacement schools, most of these at post-primary level, and will be located across the country from Clare to Kildare Cork and Louth.

Dublin Institute of Technology's Grangegorman Educational Facility: DIT, currently the largest provider of higher education in the State, is located in 39 sites across the capital, some in poor conditions. It is planned to consolidate these sites into one single educational facility. Stage one of that consolidation process will be progressed in Phase 1 of this stimulus package. This development also represents an opportunity for substantial development and rejuvenation of an important inner city urban quarter. It will also link in with the Luas as part of the proposed Luas interconnector with a stop provided at the Grangegorman Campus.

Health: **€115 million** for two bundles of primary care centres will be progressed in Phase. These bundles will each comprise up to 10 centres.

Transport: In the transport sector **€850 million** will be invested in upgrading the national motorway and primary route network. In the west, the N17/N18 Gort to Tuam will provide 57 kilometres of motorway providing a bypass of Clarinbridge, Claregalway and Tuam. The M11 Gorey to Enniscorthy project will involve the upgrading of 26 kilometres of road to motorway and will include a bypass of Enniscorthy. The N25 New Ross Bypass will provide approximately 13.6 kilometres of new road from Glenmore at the eastern border of Kilkenny and crossing over the River Barrow via a new bridge into Wexford. A further priority transport project is the Galway city bypass - a 12 kilometre orbital route for Galway city linking with the M6 major inter-urban route to Dublin - which is on hold at the moment pending the outcome of legal proceedings. Depending on the outcome of those proceedings it would be hoped to progress it as an additional PPP project.

Justice: **€190 million** will be invested in the State Pathology Laboratory, two new Garda divisional headquarters and a number of courthouses. Refurbishment and extension works to existing courthouses will be carried out in Cork, Mullingar and Waterford. New courthouse buildings will be provided in Drogheda, Letterkenny, Limerick and Wexford. New Garda divisional headquarters will be built in line with the Minister for Justice's priorities.

For reasons of commercial sensitivity, details of the expected value of individual projects are not included.

Timing of delivery

Based on information supplied by Departments, it is expected that:

- Procurement of the **Health** projects will commence by end 2012 with construction starting in 2014.
- Procurement will commence on all the **Education** projects in 2013 on a rolling basis with completion of the schools bundles during 2017 and 2018. It is expected that work will commence on enabling works to facilitate the development of the educational facility at Grangegorman in 2013 with construction of the PPP element of the facility beginning in late 2015 or early 2016.

- Construction of the **Justice** projects is due to commence in 2013 and will continue during 2014 and 2015.
- In the Roads sector, the N17/N18 Gort to Tuam will commence in 2013, and the M11 Gorey to Enniscorthy and the N25 New Ross bypass by end 2014.

Why PPPs?

The projects included in this package will be delivered through Public Private Partnership (PPP) which involves a large element of up-front funding by the private sector and allows the Government cost of financing infrastructure to be spread over the lifetime of the asset. As a consequence of this financial structure, the impact of the infrastructure investment on the General Government Balance will be gradual rather than a large upfront hit. All capital expenditure is subject to a comprehensive process of evaluation and appraisal. In addition, PPP projects are subject to a number of further controls designed to ensure that Sponsoring Agencies deliver projects by the best possible procurement mechanism. As part of the appraisal framework, PPPs are subject to a series of Value for Money tests including a comparison with the cost of procuring the project traditionally. Details of the PPP appraisal framework and documentation are available at www.ppp.gov.ie. The guidance includes a note on the accounting treatment of capital projects for accounting purposes. There is ongoing consultation with the Central Statistics Office (CSO) to ensure that the guidance fully reflects the EUROSTAT rules on the compilation of National Accounts. The National Development Finance Agency work with the Sponsoring Agencies on this value for money process for all PPP projects and advise on their financial viability.

Unitary payments

PPPs are reimbursed by the State by a stream of annual unitary payments. As unitary payments are linked to performance over the lifetime of the project, the State will only make payments where the asset is delivered in line with the terms of the contract. Where performance of the asset is not in line with contract specifications, a reduced or no payment will be made. The Exchequer's contractual commitments arising from this PPP

Programme will be met from the capital allocations of the relevant Departments over the working life of the infrastructure assets.

Funding

The Minister for Finance has been working with the Minister for Public Expenditure & Reform to bring greater certainty to project funding for PPPs. This will involve funding from a number of sources including NPRF, the EIB, domestic banks and other sources of private finance. The EIB has been a strong and valuable supporter and partner in the Irish PPP programme in the past, especially in the roads sector.

In addition, over recent months, agreement has been reached with the Troika that the State retain up to half of the proceeds of the sale of State Assets for re-investment in the economy to ensure growth and employment, with the balance being applied in due course to reducing the national debt.

Funding from State Assets and National Lottery

Of the €50 million to be funded from some of the proceeds of the sale of State assets and from the new licencing arrangement for the National Lottery, up to €50 million will be invested in delivering the commercial PPP projects. The Minister for Public Expenditure & Reform has already announced his intention to use some of the proceeds from the Lottery to supplement the Exchequer support for the National Children's Hospital. The balance of the asset sales and Lottery proceeds will be available to provide backing for other commercial and employment enhancing projects in the area of public infrastructure.

Ensuring Delivery

The Department of Public Expenditure and Reform and the Department of Finance are working closely with the relevant Departments and the appropriate delivery agents, namely, the NRA, HSE and the NDFA to ensure that projects identified for Phase 1 will be rolled out quickly and smoothly. The NDFA, as the State's financial experts, will be closely involved in the value for money aspects of each project and will also be procuring

the non-transport projects. The NRA will continue to be responsible for the delivery of the PPP roads programme.

There is an extensive suite of guidance on PPPs and the Department of Public Expenditure and Reform keeps the PPP process under ongoing review and will continuously look at how the process can be improved and enhanced.

The National Development Finance Agency (NDFA) has been reviewing the processes involved in procurement of PPP projects with a view to streamlining the process and delivering projects more quickly. These proposals are being examined by a high level steering committee on PPP projects which was established by the Department of Public Expenditure and Reform.